

ARIZONA DEPARTMENT OF CORRECTIONS
STATE VERSUS PRIVATE PRISON
FY 2006 COST COMPARISON
TECHNICAL MANUAL



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2226 West Northern Avenue, Suite C207
Phoenix, Arizona 85021
Voice: 602-249-9807
Fax: 602-249-9804

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STATE VS PRIVATE PRISON FY 2006 COST COMPARISON TECHNICAL MANUAL

GENERAL DESCRIPTION

Per ARS 41-1609.01 (L), the Arizona Department of Corrections (ADC) is required to periodically conduct a cost comparison of services provided by private prison vendors and the State to determine if anticipated costs savings materialized. This Report provides the required cost comparisons based on actual expenditures and inmate population data incurred during the State fiscal year ended June 30, 2006 (FY 2006).

Highlights

All calculations and allocation bases used in preparation of this manual are derived from same information included in the *"State Versus Private Prison Technical Manual"*. The reader is directed to the document for any questions related to the basis for findings here.

During FY 2006 all payments to private prison vendors operating under long term contract were for custody level two male inmates. Therefore, cost comparisons have been developed based only on the average costs incurred by ADC for the operation of level two male prison units.

The State's total costs associated with the operation of ADC's level two male prison units have been identified and utilized in the development of cost comparisons. In addition to ADC's direct and indirect operating costs, asset depreciation and costs of central support services provided by other Arizona state agencies have been included in developing the cost comparisons. Costs either borne only by ADC and/or disproportionately by ADC have been deducted. Deducted costs include work incentive pay plan, discharge, and inmate transportation costs.

The costs and average daily population information utilized in developing the FY 2006 cost comparisons has been obtained from ADC's FY 2006 Operating Per Capita Cost Report (Cost Report) and the General Accounting Office (GAO) of the Arizona Department of Administration. The FY 2006 Cost Report identifies ADC's total operating costs, both direct and indirect, and assigns them to ADC service components. Asset depreciation and state central support services costs applicable to ADC have been provided by GAO.

The following five cost objectives would skew the overall comparison totals since they are essentially one-time items. Accordingly, they have not been utilized in determining the total or average daily operating costs of prisons:

- Inmate High Health - Health costs for inmates exceeding \$10,000 per inmate health event have not been included. These costs vary from year to year by prison and over which ADC has little control. The inclusion of these costs would not enable a valid comparison of ADC operations from year to year. Normal day-to-day health costs are included in the costs of each state operated complex and/or prison unit.

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- Apache County Lease - An annual capital lease payment on a prison constructed by Apache County Arizona.
- Arizona Corrections Industries (ACI) - ACI is a self funded enterprise entity assigned to ADC. ACI provides opportunities for inmates to learn and develop job skills through actual employment.
- CJEF County Pass Thru - ADC passes thru criminal justice enhancement funds to counties. These funds are not used for ADC prison operations.
- Capital Outlays - Costs of equipment, new facilities, and facility improvements that are capitalized by the State and subsequently depreciated for financial reporting purposes. Capital outlays are considered non operating costs. Depreciation on buildings, improvements, and equipment are included in operating costs.

Average Daily Population

ADC provided a file called "5A DATA FILE W 595.5 FTE REDUCTION", "ADP ALL IN", AND "ADP ALL OUT". There were numerous tabs that defined both the inside and outside population counts for FY 2006, broken out by custody level within each facility. This information was used to estimate average daily population by facility and by custody level, which provided the overall basis for determining per diem costs of operation.

Number of Employees

ADC provided a hard copy report of the number of positions (FTEs) for each location, custody level, and program. This information was used to create allocation bases for those indirect expenditures best measured by the number of FTEs served.

Report

The Report is comprised of the following two sections:

- **FY 2006 Cost Comparison** - Exhibits are presented in this Section that provide cost comparisons between State prisons operated by ADC and private prisons operating under long term contracts. Comparisons are provided both for the per day average costs and the total annual costs.

In FY 2006 all payments to private prison vendors operating under long term contract were for custody level two male inmates. Therefore, cost comparisons have been developed based only on the average costs incurred by ADC for the operation of level two male prison units. Exhibit III-B in Section III of this Report provides the costs of each ADC level two male prison unit and the total cost of all level two male prison units.

- **FY 2006 Cost and ADP Information** - Exhibits are provided that reconcile costs and average daily inmate population (ADP) information utilized in developing the comparisons with ADC's FY 2006 Operating Per Capita Cost Report. Exhibits also provide the amount of asset depreciation and state central support services costs attributable to each prison unit, private prison contract, and other components of ADC's operations.

FY 2006 COST COMPARISONS

The following exhibits are provided in this Section:

Exhibit II-A: FY 2006 Cost Saving/(Loss)

The Exhibit provides the savings or loss that would have been incurred if the inmates held in custody by private prison had been held in an ADC level two male prison unit. The Exhibit is formatted as follows:

- **Private Prison** - Prison description
- **Private Prison ADP** - The average daily inmate population (ADP) in custody at the private prison.
- **State Prison Costs** - The per day average costs to incarcerate an inmate in an ADC level two male prison unit and the annual costs of incarcerating the private prison ADP in an ADC level two male prison unit. Annual costs are determined by multiplying the private prison ADP by ADC's per day average costs for a level two male inmate, times the number of days in the year. In FY 2006 there were 365 days. Exhibit II-B provides the development of ADC's per day average costs for a level two male inmate.
- **Private Prison Costs** - The per day average costs to incarcerate an inmate and the annual costs incurred by the State to incarcerate inmates in a private prison. The development of each vendor's per day average costs and total annual costs are provided on the following exhibits:
 - Exhibit II-B: Overall (two male inmate beds)
 - Exhibit II-B1: Florence West DUI
 - Exhibit II-B2: Kingman
 - Exhibit II-B3: Marana
 - Exhibit II B4: Phoenix West DUI
 - Exhibit II-C: Overall (three male inmate beds)
- **Savings/(Losses)** - The per day average costs and annual cost savings. Savings/(losses) are provided for each vendor and in total. Per day average costs savings/(losses) are determined by deducting each vendors per day average costs

from ADC's per day average costs. Total annual costs savings are determined by deducting each vendor's total annual costs from ADC's total annual costs.

Exhibit II-B: Overall Average Daily Per Capita Cost Comparison

The Exhibit provides the average daily per capita cost for ADC's level two male prison units and the average daily per capita cost for all private prison level two beds. ADP, annual costs, and average daily per capita costs are provided for both ADC and private prisons. Average daily per capita costs are determined by dividing annual costs by ADP, and then by the number of days in the year (365). The Exhibit provides the following information:

- **Per Capita Cost Report** - The ADP and annual operating costs identified in ADC's FY 2006 Operating Per Capita Cost Report. Exhibit III-A in Section III of this Report provides a summary of the operating costs identified in the Per Capita Cost Report and reconciles to ADC's financial reports.
 - Direct costs are costs that are directly associated with a unit, complex, private prison or other specific cost objective.
 - Indirect costs are costs associated with central office administration and support of ADC operations.
- **Additions** - Costs of equipment and building depreciation and services provided by State central services in support of ADC operations.
 - Although equipment and building depreciation are not treated as operating expenditures, ADC tracks these costs and the General Accounting office (GAO) of the Arizona Department of Administration develops and maintains depreciation schedules on all assets assigned to ADC and other State departments. Depreciation includes depreciation on assets directly assigned to units and their prorated share of depreciation on assets assigned to complexes and central office administrative and support units. Depreciation assigned to private vendors is the prorated share of equipment depreciation that was assigned to contract oversight and to central office administrative and support units allocated as indirect costs.
 - GAO annually prepares a statewide cost allocation plan (SWCAP) that identifies the costs of state central support services and allocates them to state agencies. Services allocated in the SWCAP include general accounting, procurement, risk management, mailroom, legal, treasury, records management, equal opportunity, budget, and occupancy. Costs allocated to private prisons are for their prorated share of SWCAP fiscal costs and for their prorated share of costs allocated to central office administrative and support units that were subsequently allocated as indirect costs.

- **Deductions** - Costs either borne only by ADC and/or disproportionately by ADC. The following costs have been deducted.
 - Work Incentive Pay Plan (WIPP) - WIPP costs are borne disproportionately by ADC operated prisons. WIPP costs are payments to inmates for work they perform. Costs have been deducted from both ADC and private prison costs.
 - Discharge - Costs associated with the discharge of prisoners from custody are borne disproportionately. Costs have been deducted from both ADC and private prison costs.
 - Transportation - ADC is responsible for transporting inmates between intake and their assigned prison (both ADC and private), ADC prison to ADC prison, and ADC prison to private prisons. These costs are currently only included in ADC prison unit costs. Since they benefit both ADC and private prisons, transportation costs included in ADC's costs have been deducted.
- **Total Comparison Costs** - The total annual costs and average daily per capita cost for ADC and private prison level two male inmate beds. ADC's daily per capita cost is utilized on Exhibit II-A in determining savings/losses.

Exhibits II-B1 through II-C: Average Daily Per Capita Cost Comparison

A cost comparison exhibit is provided for each private prison vendor. Each vendor's average daily per capita cost is compared with ADC's average daily per capita cost. The ADP and total comparison costs for each vendor are utilized on Exhibit II-A in determining savings/losses. The exhibits are formatted and provide the same information as Exhibit II-B.

FY 2006 COST AND ADP INFORMATION

The cost and average daily inmate population (ADP) information utilized in developing the FY 2006 cost comparisons has been obtained from ADC's FY 2006 Operating Per Capita Cost Report (Cost Report) and the General Accounting Office (GAO) of the Arizona Department of Administration. The FY 2006 Cost Report identifies ADC's total operating costs, both direct and indirect, and assigns them to ADC service components. Costs and the methods used to identify and assign or allocated ADC operating costs are provided in the Cost Report.

In addition to costs identified in the Cost Report, costs associated with equipment and building depreciation and state central support services have been identified and included in developing cost comparisons. Depreciation and state central support services costs applicable to ADC have been provided by GAO.

- GAO develops and maintains depreciation schedules on all assets assigned to ADC and other State departments. Depreciation on assets have been identified and assigned to the appropriate prison unit and complex, and central office support unit. Depreciation on

assets assigned to complexes has been allocated to the prison units in each complex based on ADP. Depreciation on assets assigned to central office administrative and support units have been included in the costs of each unit and allocated using the base designated in the Cost Report for allocation of each unit's costs.

- GAO annually prepares a statewide cost allocation plan (SWCAP) that identifies the costs of state central support services and allocates them to state agencies. Services allocated in the SWCAP include general accounting, procurement, risk management, mailroom, legal, treasury, records management, equal opportunity, budget, and occupancy. Costs allocated to ADC have been allocated on three bases: all department full time equivalent positions (FTE), central office FTEs, or total ADC expenditures. Costs of fiscal related services such as Department of Administration budgeting and accounting services have been allocated on total ADC expenditures. Costs of services allocated to ADC based on FTEs have been allocated within ADC based on the number of assigned FTEs. Facility costs related to ADC's central offices have been allocated on the number of FTEs located at the central offices.

The following two exhibits are provided in this section:

Exhibit III-A: Total Costs Incurred In Support of Department Operations

The Exhibit provides ADC's total FY 2006 costs. Costs include operating costs identified in the FY 2006 Operating Per Capita Cost Report, asset depreciation, and the cost of state central support services. The Exhibit provides the following information:

- **Description** - Description of cost objective.
- **Custody Level** - The inmate custody level for ADC and contract prisons.
- **ADP** - Average daily inmate population
- **Major cost components** - A column is provided for several major cost components.
- **Total Dept. Operating** - The total cost identified in ADC's FY 2006 Operating Per Capita Cost Report.
- **State Central Services** - State central services costs allocated to each unit.
- **Equipment Depreciation** - Amount of equipment depreciation assigned/allocated to each unit.
- **Building Depreciation** - Amount of building depreciation assigned/allocated to each unit.

- **Total Costs** - The total costs assigned/allocated to each unit. The total costs for the private prison are the costs included on exhibits II-C through II-F.
- **Daily Per Capita** - The average daily costs to incarcerate an inmate. Costs are determined by dividing Total Costs by ADP and then dividing by 365. The daily costs for the private prison are the costs included on exhibits II-C through II-F.

Exhibit III-B: Level Two Male Units, Total Operating Costs

The Exhibit provides the total FY 2006 operating cost for ADC custody level two male prison units. The Exhibit is formatted and provides the same information as Exhibit III-A for just ADC custody level two male prison units. Total costs and the average daily per capita costs are the costs used in developing ADC's comparison costs.

Exhibit III-C: Level Three Male Units, Total Operating Costs

The Exhibit provides the total FY 2006 operating cost for ADC custody level three male prison units. The Exhibit is formatted and provides the same information as Exhibit III-A for just ADC custody level three male prison units. Total costs and the average daily per capita costs are the costs used in developing ADC's comparison costs.

THE END
